Nova Scotia Liquor Corporation
Governance Review
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Grant Thornton

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EXECUTIVE SUMMARY

Prior to July 2001, the Nova Scotia Liquor Corporation (NSLC) was a provincial commission. Since the introduction of the new corporate structure, the organization has undergone significant change including introduction of a new governance model, appointment of a Board, hiring of a new CEO and several senior managers and restructuring of the organization. Since its appointment, the new Board has developed and begun to introduce a governance model including processes, policies and structures to support them in fulfilling their corporate governance responsibilities.

Coincident with the need to review other aspects of the operation of the NSLC, the Board of the NSLC initiated this review of their corporate governance model. This review is intended to consider whether the governance model is appropriate, whether it has been effectively implemented and whether it is supporting the Board in exercising effective governance of the NSLC. The review of the governance was conducted through interviews of Board members, senior management, and the review of key documents. The consultant team evaluated the practices of the Board against 12 criteria of effective governance practices.

We commend the Board for the work that it has completed in articulating its role and responsibilities and in setting up its operating practices particularly in light of having to do so concurrently with addressing difficult issues that faced the Board upon its appointment.

In reviewing the practices of the Board as compared to the criteria of effective governance practices, we have identified actions to be taken by the Board and by senior management to improve the environment for, and operations of, the effectiveness of the oversight body. In total, over 30 recommendations are being provided to the Board for further development of certain practices. Recommendations include improvement of Board/Executive relations; establishment of mission, vision, values for the organization; enhancement of the Board responsibility document; establishment of a standing committee to be known as the Governance committee with the responsibility of ensuring effective operations of the Board; an overhaul of corporate policies following the setting of a policy framework; improvements to executive and financial reports; undertaking an enterprise risk management review; undertaking an operational review of the Internal Audit function; and improvement in process for external communications. We suggest that the Board establish an action plan to deal with each of the recommendations.

We thank the Board and management of the NSLC for the cooperation we received during the conduct of the governance review. We are confident that the Board will ensure due consideration and action on the recommendations for the long-term sustainability of the organization.

INTRODUCTION

Prior to July 2001, the Nova Scotia Liquor Corporation (NSLC) was a provincial commission. In July 2001, the NSLC became a Crown Corporation and a new governing structure was introduced. The Province appointed 7 members to the first Board of Directors for the new corporation. Since its appointment, the Board has developed a corporate governance model including Board structure, roles and responsibilities of the Board, Board members, and committees, as well as Board processes to support them in fulfilling their corporate governance responsibilities. The Board members should be congratulated on the effort that they have put forward in establishing these governing documents and setting processes into place.

In addition to changing its corporate structure, the NSLC has also changed its strategic focus from being primarily a liquor distribution company to a customer service focused organization. Important steps were taken in the most recent year to support this change to a more proactive operating style – an employee survey was undertaken, as well as a customer satisfaction survey. These initiatives have provided valuable information to the corporation to allow them to consider how they can improve operations and delivery.

Coincident with the need to review other aspects of the operation of the NSLC, the Board of the NSLC initiated this review of their corporate governance model.

OBJECTIVE OF REVIEW

The purpose of the review is to provide the Corporation with an indication of the effectiveness of the governance model in terms of the degree to which the governance model is contributing to quality of operations, is enabling the organization to achieve its objectives and its priorities, and is allowing the Board to meet its accountabilities to stakeholders. Further, the review considers how the Board's performance contributes to the culture of the organization.

METHODOLOGY FOR REVIEW

The consultant team utilized a three part work plan to conduct the review. The work plan consisted of interviews of Board members and senior managers in the summer of 2003, a review of selected Board and corporate documents, and discussion of observations in relation to twelve criteria that represent best practices of effective governance bodies.

In total, eleven interviews with Board members, senior managers, and the acting corporate secretary were conducted. Various documents including Board minutes, Board information packages, monthly financial reports, business plans, corporate policies, annual reports, position descriptions, and internal audit reports, were reviewed by the consultants.

The current state of the governance processes was assessed against criteria or guidelines considered to be 'best practice' for corporate governance. Where gaps between the current governance model and the criteria were identified, recommendations for improvement have been provided.

KEY STATISTICS FOR NSLC OPERATIONS

The following are selected statistics on the NSLC with the intent of giving an appreciation for the size of the operations:

- In operation for approximately 70 years through the predecessor organization
- Approximately 1,250 employees
- Operating approximately 100 retail locations
- Board of Directors comprised of 9 members (7 voting, 2 non-voting)
- Revenues of approximately $400 million, net income of approximately $155 million.

SPECIFIC CRITERIA FOR THE REVIEW

The current governance of the NSLC was reviewed against the 12 specific characteristics or criteria which represent best practices of effective governance bodies.

Criteria One: Clear Roles and Responsibilities for Board

The responsibilities of the Board of Directors are clearly set out and are consistent with the mandate of the organization. There is alignment between the responsibilities of the Board and the organization's President with no overlapping confusion. The Board delegates management responsibility for the organization to the President and ensures a proper performance evaluation process for the President is conducted. There is a positive working relationship between the Board and the President. Role and responsibilities of the Board also recognizes fiduciary obligations. Responsibilities of the Board include active participation in the planning process; reporting to the stakeholders; ensuring effective management is in place; and protection of the organization. This includes:

I. *The Board ensures that the organization undertakes comprehensive **strategic planning**, and completes and maintains an updated strategic plan. This includes a statement of mission, vision, corporate goals, and appropriate accountability mechanisms to monitor compliance with the strategic plan. The Board is an active leader and participant in this activity.*

II. *The organization has defined **communication policies** and assigned responsibilities for providing information about the Corporation to both internal and external stakeholders.*

III. *The organization has policy and process to guide the **annual evaluation** of the senior management position and to guide **succession planning** for senior management positions.*

IV. *The organization has **internal control** mechanisms to ensure the effective and efficient use and safeguarding of all the organization's assets and to properly mitigate corporate risks.*

V. *The organization has a clear **definition of corporate success** that is understood by all stakeholders. This definition is linked to the strategic plan.*

Observations and comments:

Recently, an ad-hoc Corporate Governance committee of the Board developed a document outlining roles and responsibilities of the Board. Important items to note about the document:

- known as By-law #6, Corporate Governance By-law
- sets out the legislative authority for the Corporation and the Board of Directors
- outlines the role of the Board, role of the Board Chair, and role of Government
- sets the Board's operating style
- outlines individual responsibilities of Board members.

By-law #6 outlines eight key responsibilities for the Board identified, including:

1. Selection, appointment, evaluation and compensation for the President directly and recommendations on such for remainder of the senior management team
2. Succession planning policy and process
3. Strategic planning process, approval of plan, and monitoring performance against plan
4. Approval of annual capital and operating plans, and monitoring performance against plan
5. Oversee identification of business risks and plans to manage those risks
6. Oversee integrity of system of internal control and management information systems
7. Orientation of new Board members
8. Evaluation of the Board and committees.

This by-law reflects all the key responsibilities of the Board as identified in the criteria for effective governance except for the Board's responsibility to report out and communicate with stakeholders.

Due to the recent introduction of this by-law, not all of the responsibilities outlined therein are in fact operational yet. For example, the Board feels that they have neither led nor participated in strategic planning or in the discussion and setting of the corporation's mission and strategic goals. Setting strategic direction is a key responsibility for the Board and it is essential that the Board have direct input into establishing strategic direction and objectives along with senior management staff so that the resulting plan has the commitment and ownership of the leadership team.

The proposed by-law indicates that there will be Board policies on Communications, and Health and Safety. We suggest, however, that there will be various topics for which the Board will develop policies in the long run and therefore it may prove to be limiting to specify these two items in the by-law.

The role description for the President is defined through his employment contract rather than through a formal job description. This contract does not however provide a clear outline of the responsibilities of the President's role.

During our interviews, it was apparent that there is tension between the Board and senior management with respect to their respective roles. The President and other management staff did not have a common understanding of the role of the Board and, therefore, did not respect the distinction between the roles and the value of this distinction. Senior staff appeared concerned that the Board would adopt an operating Board style where the Board plays an active role in making management decisions rather than remaining focused at the policy level. It is important for the effective governance and operation of the organization that the respective roles and responsibilities of management and the Board, and the distinction and interfaces between the two be commonly understood and respected.

In addition to the tension related to the respective roles of the Board and senior management, a general lack of trust was evidenced through our review. This is affecting the working relationship between the Board and senior management. The Board is concerned that they are not consistently provided with full and open disclosure on issues and are not given sufficient information to make informed decisions related to management recommendations. This concern results in the Board feeling the need to extensively scrutinize the information provided to them by management to ensure they have not overlooked potentially controversial or contentious issues. In addition, when management makes recommendations to the Board for approval, the Board is not consistently given options to consider along with the advantages and disadvantages of each or the full impact or implications of the recommendations.

The Board established the acting corporate secretary role, in part, to provide the Board with a vehicle to obtain more complete information. This has however created two points of reporting from the organization to the Board and this has proven to be complicated to manage and an impediment to building an effective working relationship between the Board and Senior

Management. The Board and Senior Management need to have a clear and frank dialogue to clarify roles and responsibilities and the Board's expectations for reporting and information sharing.

When asked about the Board's role in risk management, it was clear that Board members recognize that this is an important subject for them to understand as it relates to the conduct of the Corporation's operations. However, the Board's role in risk management has not been formally addressed at this point.

Summary and Recommendations:

Based on documentation and interviews, the Board members understand their role as individuals and as a Board. The main issue to be dealt with is ensuring a clear understanding and appreciation by Senior Management for the role of the Board and the need to improve the working relationship between the Board and President and other senior management.

We recommend additional effort on the following:

1. Facilitated dialogue between Board and President to clarify respective roles and approach to their working relationship. Based on this dialogue, processes and actions for improving the working relationship of the Board and the President should be developed and implemented and periodic reassessment conducted.
2. Share this dialogue and inform the senior management team of the agreed roles of the Board and the President and the approach to their working relationship – this should be done by both the Chair of the Board and the President.
3. The Board spend time outlining the Board's role as policy maker and monitor of such.
4. The Board develop and initiate a strategic planning process in collaboration with the President.
5. The Corporate Governance committee develop a comprehensive description for the President's role for the Board's review and approval.
6. Update the Governance by-law to set out the Board's role in communications and relationship management.

7. Revise the Governance by-law to eliminate the statements with respect to making specific policy and to indicate that the Board will establish policy, as needed, to govern the corporation and will monitor performance against same.

Criteria Two: Effective Board Membership

The Corporation has clearly established desired attributes, skills and experience to be represented on the Board, which is consistent with the roles and responsibilities of the Board. The size of the Board permits for the necessary skills to be represented while allowing for efficiency in Board operations. Additionally, the organization has a well-defined process to identify and recruit individuals to be Board members, ensuring individuals have the desired criteria and qualifications, which permit them to serve effectively. Potential Board members are interviewed and recommended for consideration for appointment to the Board.

Observations and comments:

Appointment to the Board of NSLC is determined through government's appointment process and is made by the Governor in Council. The current Board has been in office for approximately two years and is the first Board of the Corporation. The Board has 9 members, 7 of whom are voting members, who come from a variety of backgrounds, providing a good cross section of skills and experience. In broad terms the following skills/experience are represented on the Board through the 7 voting members:

- Knowledge of political process and stakeholder accountability
- Legal skills
- Management experience in a regulated industry
- Financial services
- Sales experience in the liquor industry
- Supervisory experience in the education sector
- Sales experience and management experience in technology.

The two non-voting Board members are a deputy minister from the Provincial government, and the NSLC President.

Although the Board members are appointed through the provincial appointment process, the Board should play a role in identifying the skills and experience it requires to effectively govern the organization. Having been on the Board for two years, the current members are in a position to be able to outline the desired composite of skills and experience. The Board can also consider

recent regulatory pronouncements regarding audit committees and the requirement for financial literacy.

Summary and Recommendations:

The Board should take an active role in ensuring that the Board membership comprises the skills and experiences needed for effective oversight of the Corporation and accountability to the shareholder.

We recommend additional effort on the following:

8. Establish the Corporate Governance committee as a standing committee of the Board and assign their tasks to include establishment of an outline of desired skills and experience on the Board, and thereafter annual update of such considering regulatory pronouncements, changes in the corporation's business and structure, and expectations of the shareholder.
9. The Corporate Governance committee establish a process for requesting nominees and also identifying potential new nominees. This process should include an evaluation of the person's skill sets against the desired composition of the Board. The process should also include an interview stage to establish the person's level of interest, commitment, and operating style to ensure that there will be a positive fit with the culture of the organization.

Criteria Three: Board Orientation and Training

There is a clear orientation program for new Board members to educate them on the Corporation, its mandate, its mission, strategic plan, and a general overview of operations, as well as the role and responsibilities of the Board and the duties of an individual Board member. The orientation includes written material and discussions with the organization's senior executive. Thereafter, there is ongoing training and information for the Board members on items such as their responsibilities, changes to operations, changes in the business environment, stakeholders needs, etc.

Observations and Comments:

When the current Board was first convened, the management team conducted an orientation for the Board by providing presentations on the various business units and processes within the corporation. Given the recent establishment of the current Board, formal board orientation and training structures and processes have not yet been established.

Since its initial orientation, the Board has learned more about the NSLC through Board meetings, reviewing various documents, and through discussions on various issues. A few Board members have also attended conferences relative to the liquor retail industry and to governance for Crown corporations.

There is currently no formal manual for Board members, although creating such a manual has been identified by the Board as an action item. A Board manual is an important reference manual not only for orienting new Board members, but also as reference for current Board members.

Summary and Recommendations:

Board orientation and education needs to be developed to enable the corporation to properly orient new Board members and allow them to be effective as quickly as possible to fulfill oversight and governance responsibilities.

We recommend additional effort on the following:

10. Develop an outline of an orientation process for new Board members. We recommend that this be the responsibility of the Corporate Governance committee. The chair of this committee should ensure that new Board members complete the process. Feedback on effectiveness of the program should be sought and changes made in relation to the feedback.

11. Identify appropriate ongoing education for the Board members – this may be provided through an education item at the start of each Board meeting, an annual education session for the Board on industry issues or fiduciary obligations; and/or committee specific education, such as education on new accounting and auditing regime standards for the Audit Committee. The responsibility for ongoing education of the Board should be assigned to the Corporate Governance committee.

12. The Corporate Governance committee take on the task of overseeing the development of a Board members manual. This manual should have four primary sections: Board of Directors; Corporate Information; Operations; Industry Information. The section for Board of Directors should include, but not be limited to, items such as the Corporate Governance by-law, mission, vision, values, strategic plan, Board/committee lists, committee terms of reference, by-laws and governance policies. The Corporate Information section should include the Liquor Control Act and Annual Report. The Operations section should include the staff organization chart, outline of business and functional units, annual business plan, employee profile, key suppliers, customer profile, retail locations, and types of distribution points. The Industry information section should include information on the liquor retail industry; consumer trend information, and associations.

Criteria Four: Expectations and Involvement of Board Members

Board members are fully engaged in the responsibilities of the Board. Each Director attends meetings and contributes by expressing opinions and voting on decisions. The Board has clear guidelines for the termination of Board members who are not performing to the expectations of the organization and fellow Board members.

Observations and Comments:

Through our interviews, we did not hear concern about the contribution of any of the individual Board members nor did we hear about consistent absence of any one Board member from meetings. All acknowledged that it took some time to become sufficiently familiar with the operations of the NSLC to be effective in their oversight role. Ongoing member participation and attendance are areas that should be monitored through an annual review of Board members' performance. Feedback from such an evaluation can be useful for coaching a Board member in improving their performance or in dealing with termination of a Board member should the need arise.

Terminating a Board member for reasons other than end of term is a matter that a Board will need to deal with from time to time. The Liquor Control Act, paragraph (7) (6) states: *The Chair and each member of the Board of Directors appointed pursuant to clause (a) of subsection (1) shall enjoy tenure during the term of their appointment but may be removed at any time for misbehaviour, incapacity, or inability to perform their duties properly by the Governor in Council.*

Because there is no further guidance or definitions for misbehaviour, incapacity, or inability to perform their duties, it would be prudent to develop a process for handling Board member termination. Further the Board should review the proposed process and definitions with the Minister and have the process available to enact when necessary. The process should also be reviewed and updated from time to time.

Summary and Recommendations:

To ensure the on-going effective participation of Board members, we are recommending that processes be developed to deal with performance reviews of individual Board members and terminations of Board members as outlined within the Act.

We recommend additional effort on the following:

13. Assign the task of developing a Board member evaluation form and process to the Corporate Governance committee for review by the Board.

14. Assign the task of developing a termination process and the potential reasons for termination of Board members to the Corporate Governance committee for review by the Board.

Criteria Five: Effective Board Structure

The Board has effective structure for the execution of its responsibilities. This includes clear responsibilities for the Board Chair, for Board members, and appropriate committees with clear terms of reference, as well as established protocol for the conduct, frequency, preparation, and recording of meetings. The effectiveness of the Board is also complimented by ensuring appropriate terms and length of office, balancing length of service for understanding and effectiveness with the need for Board renewal and progress.

Observations and Comments:

The Corporate Governance by-law clearly sets out the role of the Board chair and the individual responsibilities of Board members. Our view is that the listing of the responsibilities is complete with only a few omissions.

In the description of the chair's responsibilities in the Corporate Governance by-law there is reference to ensuring that an appropriate committee structure is in place. The Board Chair also has a responsibility to monitor whether committees are effective in fulfilling their terms of reference and whether committee chairs are effective in their roles. Individual Board members should also have the responsibility to be a member of at least one committee of the Board.

The Board has identified that it plans to use two standing committees: Audit & Finance, and Social Responsibility. It also recognizes that the Board will strike other committees on an ad-hoc basis, such as Corporate Governance and Human Resources. During our interviews, we learned that the Board is also considering having an Industry committee to provide focus on the corporate objective of promotion of industrial and economic objectives.

There is a considerable amount of work that is needed to ensure the ongoing effectiveness of the Board. A standing Corporate Governance committee could be assigned responsibilities aimed at ensuring the ongoing effectiveness of the Board including orientation of new Board members, addressing ongoing education needs of Board members, the conduct of strategic planning, and development of Board processes for recruitment, termination, and evaluation. Some organizations have also assigned responsibility for Board duties related to executive compensation to the Corporate Governance committee rather than creating a separate committee for this single subject.

The Board has established its frequency of meeting as monthly or as necessary, and there is a complete record of Board information packages, and minutes.

Terms for Board members have been established in the legislation, with 2 members having a term of two years, 2 members having a term of three years, 2 members having a term of four years and one member for a term of five years. This structure provides for continuity of the Board.

Summary and Recommendations:

The Board has recognized the need for standing committees, has established two committees with the consideration of a third committee with an industry and economic focus. We are recommending that the Corporate Governance committee be established as a standing committee, rather than on an ad-hoc basis.

We recommend additional effort on the following:

15. Update the role of the Board Chair to include responsibility to monitor the effectiveness of committees and committee chairs.
16. Update the responsibilities for Board members to include being a member of a committee.
17. Update the Governance by-law to establish the Corporate Governance committee as a standing committee with the following responsibilities: develop and execute strategic planning process; develop and oversee Board orientation; arrange for ongoing education for the Board; develop and conduct self-assessment process for Board, Board members, and committees; develop outline for Board composition regarding skills and experience; develop policy-setting framework; and develop termination process for Board members.

Criteria Six: Effective Decision Making

The Board identifies their information needs and ensures that management provides proper information for their decision-making. In particular, the Board receives information to regularly assess the performance of the Corporation.

Observations and Comments:

The Board has established timelines for the delivery of information to Board members prior to a Board meeting.

A report called the NSLC Corporate Update is provided to the Board on a monthly basis. This report is structured around the subheadings of Corporate, Financial, Customer Service, Social Responsibility, Local Industry Development, Employee Development, Information, and Store Development and under each heading, a list of activities is provided. However, this report does not track progress on the business plan for the year.

Through this review, the Board expressed frustration regarding the financial information that is presented noting that this information is not timely, is too voluminous and does not focus on key indicators that would permit the Board to be effective in its financial oversight responsibility.

The Board receives both a preliminary financial statements package and a final monthly statement package. For the month of May, the preliminary statement was dated June 23, and the final package dated July 7. The distribution of two sets of statements is redundant and can be confusing to the reader. Organizations of similar size to the NSLC prepare and distribute month end financial statements within 20 days after the month end and therefore do not need to distribute preliminary and final financial statements.

The current monthly financial package for the Board contains 22 statements:

- Income statement – comparative results
- Income statement – forecast
- Income statement – monthly
- Balance Sheet
- Statement of Changes in Financial Position – year to date, and for the month
- Sales Analysis – Dollars

- Sales Analysis – Hectolitres
- Gross Profit Analysis
- Expenses Analysis year to date
- Expense Analysis monthly
- Inventory Analysis
- Comparison of Sales – 12 month
- Sales by Store
- Sales per Store Hour
- Sales per Employee Hours worked
- Cost of Sales
- Five year comparison of sales dollars
- Five year comparison of profit
- Detailed balance sheet – assets and liabilities
- Net profit statement.

It is not clear that all this information is required on a monthly basis. It may be appropriate for some of these statements such as sales by store, sales by store hour, the five-year comparison and the details of assets and liabilities to be provided quarterly.

In addition to the large number of statements, statements do not follow a consistent format making review of the material difficult for the reader. For example some statements are presented in a portrait format and others are presented horizontally on the page. Some statements contain information that is not required in the report or are formatted awkwardly reducing their readability. The 'income statement – comparative results' and the 'income statement – monthly' both could be improved in terms of relevance and readability.

The income statement for *year to date comparative* results contains 7 columns of information as follows:

- Current month of current year
- Current month of prior year
- Increase/Decrease
- %
- Budget current month of current year

- Increase/Decrease
- %

The columns titled 'increase/decrease' would be more appropriately titled 'variance'. It would be more appropriate to order the presentation of information (the columns) 'budget current month of current year', 'actual current month of current year', and 'current month of prior year'.

The income statement for the *current month* contains 16 columns of information, many of which are percentage calculations that may not be required in this report format.

While some of the financial statements currently being provided may not be required by the Board, there is some critical financial information that is not being presented. For example, the Board is not provided with a summary of key indicators where management has set targets, is monitoring achievement of those targets, and providing explanation where targets are not being met. Key indicators could include sales dollar per square foot of retail space, gross margin per square foot of retail space, overhead as a percentage of sales and/or overhead as a percentage of total indirect costs. Key indicators should also include information to allow the Board to assess whether the Corporation is optimizing its net income and return on investment. In addition, the financial package should contain narrative information on the financial results, highlighting both the accomplishments, and evolving risks, along with action plans to address any variation from planned results.

Board members indicated that, when they are required to make business decisions, they are not provided with alternatives but are typically presented with only one recommended course of action. Good governance requires that the Board be presented with viable alternatives and the advantages and disadvantages of each, and that they be allowed to debate, deliberate and decide on strategy and key corporate actions with this full information. This approach is consistent with discussion earlier in this report related to the need for full and open disclosure by management to the Board.

Summary and Recommendations:

The Board is only as effective as the information that it is provided with. As the primary employee of the Board, the President must ensure that there is full and open disclosure to the Board so that the Board is able to make fully informed decisions.

We recommend additional effort on the following:

18. Require that the President's report be reformatted to show progress on corporate actions for the year and progress on the business plan.

19. Require that the financial information provided to the Board be streamlined to that which is necessary for the governance level and key indicators be developed to enable the Board to monitor financial performance. Eliminate the preliminary financial statements and improve processes to provide the final financial report within 20 days of month end.

20. Require that the President commit to a full and open disclosure style and ensure that the Board is provided with alternatives and analysis of impact/implications of proposed recommendations.

21. The Audit Committee work with the President to identify whether financial results are adequate given other comparator organizations, establish the achievable return and monitor financial results to desired benchmarks.

Criteria Seven: Board Accountability

The Board conducts a structured self-assessment of its own performance on an annual basis and sets out specific actions to be taken to improve on areas identified as being weak in execution. There is also a process for individual Board member accountability to be assessed.

Observations and Comments:

There is currently no self-assessment process for the Board, its committees or its members.

Summary and Recommendations:

The governance level of an organization should ensure that it questions its effectiveness and works on ongoing improvement. An annual feedback process would provide for this evaluation.

Regulators have also been establishing minimum standards of disclosure to demonstrate Board accountability such as publishing attendance records of Board members in the annual report.

We recommend additional effort on the following:

22. The Corporate Governance committee take on the task to develop an annual assessment process for the Board, and for the committees. The committee should also develop the timeline for the evaluation process, as well as how the process will be undertaken with the confidentiality required. The Board may find it appropriate to use an outside consultant to conduct the process and provide the feedback in order to achieve necessary confidentiality and independence from the Board.
23. On receipt of the feedback, the Chair of the Board review individual Board member's performance results with them. Also, on receipt of the Board and Committee feedback, the Board and Committees should identify changes to processes and practices to address any areas for improvement.
24. The Board consider the additional information that should be included in the annual report to demonstrate their fulfillment of accountability standards.

Criteria Eight: Executive Performance Management

There is a clear process for the selection and thereafter annual performance review of the President of the Corporation. The performance review process is designed to consider multiple dimensions such as feedback from stakeholders, perception of the community, and staff views on the President's operational and human resources style. The performance appraisal process for other staff is clearly the responsibility of the President. Additionally, the Board ensures that there is a succession plan in place for senior executive positions.

Observations and Comments:

An evaluation of the President was conducted by the Board in March/April 2003. The performance assessment document was compiled based on input from Board members and a self-assessment by the President. The ad-hoc Human Resources committee facilitated the process, and a formal written review was provided to the President.

In terms of succession planning for senior executives, the President has presented his assessment of a capable executive from within the Corporation that could step into the President's role to the Board, if need be.

Summary and Recommendations:

It is a positive sign that a formal review of the President's performance was completed. In future, the review process may be expanded by obtaining input from the staff and direct reports to the President, as well as suppliers and other key stakeholders.

We recommend additional effort on the following:

25. Expand the President's assessment process to include input from a broader group of affected individuals and stakeholders.
26. Ensure that the assessment of the President includes an assessment of progress on the Corporation's strategic plan and current year business plan.

Criteria Nine: Effective Policy-setting

The Board has ensured that appropriate policies are in place in the areas of human resources, finances, operations, code of conduct, and conflict of interest. There is a process for development of policy, review, approval and thereafter updating. The Board ensures that governing documents, such as by-laws and policies, are subjected to review on a sufficient frequency to ensure that the Board is staying attuned to the needs of the stakeholders and the corporation.

Observations and Comments:

We reviewed both the Board and executive policies. The table of contents for the Board policy package includes the following headings: Executive; Finance & IT; Human Resources; Merchandising & Marketing; Operations & Development; and Purchasing & Distribution. There are also three executive policies entitled: beer policy, corporate donations, and NSLC authorities.

While there are both Board and executive policies, the NSLC does not have a policy-setting framework that provides definitions or guidelines to distinguish between Board level policy and management/operational level policy. Further, some policy has been established through by-laws. To ensure that there is clarity of direction, it is important that the Corporation have clear guidance in terms of the level of authority for establishing various forms of policy and that clear distinction is made between policy and procedure.

In at least one case, there is also some inconsistency between the Corporation's policies and the enabling legislation, the Liquor Control Act. The NSLC's policy on Authorities, as approved by the executive committee on March 24, 2003, states that the President can approve expenses over approved budget and that the President has signing authority for tenders over $50,000. But paragraph 20 (3) of the Liquor Control Act states, "*All outlays and expenditures of a capital nature in excess of fifty thousand dollars over approved total capital spending outlined in the budget for the fiscal year shall be approved in advance by the Minister*".

The Board policy manual does not include a code of conduct and conflict of interest policy; a policy on fair purchasing practices; a policy on employer practices and treatment of employees; a policy on treatment of customers; or a policy on communications. Further, the executive policy manual does not include a code of conduct and conflict of interest policy. We would typically

expect policies on these topics to be included in the formal policy direction of an organization like the NSLC.

Additionally, policies to meet the requirements of new legislation need to be developed from time to time. For example, a new federal privacy law comes into effect January 2004 and the NSLC will need a policy statement on privacy.

Some of the policies we reviewed have been in place for more than 10 years. These policies may therefore not reflect the current corporate structure or business practices of the NSLC. In addition, some subject matter is covered in more than one policy.

Summary and Recommendations:

Given the changes in the corporation over the past few years both in its external environment, as well as internally, we are recommending that a policy-setting framework be established and that a review of current policies be conducted.

We recommend additional effort on the following:

27. The Corporate Governance committee develop a policy-setting framework, and develop a template to ensure that policies are documented in a consistent style. The template should ensure that there is a standard for dating the policy and identifying who approved the policy, as well as a standard for the timing of policy reviews thereafter. The policy-setting framework should also distinguish between by-laws and policy.
28. The Board and management review current policies to identify omissions, conflicts or non-compliance with legislative authority, as well as those policies that are in need of revision due to changes in operations or to improve the readability of the material.

Criteria Ten: Setting Organization Culture

The Board establishes the values for the organization and sets the 'tone from the top' in terms of providing direction to the organization on its expectations for how the value system will be applied. The Board has sufficient processes and policies in place to ensure that the Board and the organization operate within the values set by the Board (e.g. Codes of Conduct).

Observations and Comments:

The Board has not had input into the development of the mission of the organization. The governance level should, through a facilitated session and dialogue with senior management, discuss the current mission of the Corporation and if required, develop a new mission statement to reflect the new Corporation and the objects established by legislative authority. The Board should also participate in the development of a vision statement for the Corporation that reflects its long-term goals and a statement of organizational values. The culture of the organization will be guided by its mission, vision, and values and be reinforced through holding those associated with the Corporation accountable to those values.

The Board has recently taken some action to set the 'tone from the top'. We understand that the Board has established that the head of internal audit can have access to the Chair of the Audit Committee at any time. This is an important step. However, we note that the internal audit manager continues to report directly to the Vice President Finance. We noted in the minutes of one executive team meeting that the Vice President Finance presented highlights from the quarterly Audit and Security Report and in another that the Vice President Finance reviewed the annual Audit & Security Department Report for fiscal 2003. To uphold the independence of the internal audit function, the internal auditor should be invited to the executive to present the internal auditor's report directly himself.

The current NSLC Authorities policy indicates that a vice president and the vice president of human resources can approve any dismissal of personnel below the vice president level. This authority would therefore extend to dismissal of the internal auditor. Again, to uphold the independence of the position of the internal auditor, an exception to dismissal policy should be introduced for the head of Internal Audit.

Summary and Recommendations:

The Board must play a lead role in establishing the Corporation's mission, vision and values.

We recommend additional effort on the following:

29. The Board sponsor a special meeting for the purpose of developing mission, vision and values. Senior management should also participate in this meeting. We also recommend that an independent facilitator be used to provide for an effective dialogue process. The Board should develop a communications plan to ensure the proper sharing of the statements with employees, customers, suppliers and shareholders.

30. The Board sponsor an operational review of the internal audit group with the view to examining the structure, positioning, and reporting relationships of the group in context of the organization's risk profile and the desired culture of the Corporation.

31. Amend the Authorities policy to recognize that dismissal of the Internal Audit manager follows a unique process.

Criteria Eleven: Risk Management

The Board ensures that there is a mechanism/process in place for the identification of the principal risks of the organization's business and ensures implementation of appropriate systems to manage these risks. The Board is apprised of changes to the external business environment that might impact the organization. The Board understands the uncertainties and assumptions that are incorporated in the organization's strategic plan.

Observations and Comments:

The governance level of an organization must be knowledgeable of the inherent risks to the business for which they are charged with providing oversight. Without the appropriate level of knowledge of the range and severity of risks, the governance level will not be able to effectively monitor management's response to managing the risks and the allocation of resources, as well as return for the degree of risk.

Appropriately, the NSLC Board has assigned the responsibility for oversight of risk management processes to the Audit Committee. To fulfill this responsibility, the Audit Committee typically requires support from within the organization. Often this support is provided by the Internal Audit function that, through its independent relationship, is able to provide the Audit Committee with an independent assessment of the appropriateness and effectiveness of the risk management processes.

In addition to considering the current risks inherent to the business, risk identification should be an explicit step in a company's strategic planning cycle. This would require consideration of those risks that might arise in the longer-term planning horizon.

The 2002/2003 work plan for the internal audit group was developed by first identifying the audit universe, determining audit frequency and available resources, identifying risks of each type of audit, and then prioritizing projects. We suggest that an analysis of the corporate risks should be the starting point for the internal audit's resource allocation. The risk profile resulting from the risk analysis and assessment should be used to identify the areas of audit focus and the allocation of internal audit resources should be directed to those areas of highest risk and to reporting to the Audit Committee on effectiveness of management in managing those risks through the system of internal controls.

There has been considerable focus in the public markets around the need for strong internal controls within corporations to ensure the protection of company assets, effectiveness of operations, and meeting stakeholders' expectations. In publicly listed companies, CEO and CFOs are being required to provide annual certifications that they have ensured the design of necessary internal controls and also the effectiveness of the operation of those controls. Other Boards are considering the means by which they gain assurance that the systems of internal control are appropriate and effective.

Summary and Recommendations:

Effective risk management is key to the health of an organization in order to provide for its employees and customers, as well as meet requirements of its shareholder. In our discussions, we did not find enough focus in the Corporation on risk and managing of risks.

We recommend additional effort on the following:

32. The Board sponsor an enterprise risk management review including facilitated risk workshops with the Board and with senior management to ensure understanding of the risk profile, elements of inherent risk and risk responses in place. This review should lead to the identification of inherent risks across the corporation, as well as the degree of risk. The risks should consider both those presented in the external environment within which the corporation operates, as well as the risks that arise for internal reasons.

33. The internal audit group adopt an enterprise risk view and summarize the key risks annually and consider enterprise risk in the allocation of resources each year. Additionally, internal audit should ensure that their reports to the Audit Committee focus on risks that the Corporation will be exposed to and the degree of risk in the event that control breakdowns are allowed to continue. This change to internal audit processes should be preceded by the operational review of the current internal audit function to examine its positioning within the organization, its mandate, its processes and its capabilities.

34. The Board consider the merits of establishing a process for CEO and CFO annual certifications on the adequacy of the design and operations of internal controls across the organization for the purposes of the control objectives of safeguarding of assets, compliance with legislation, reliability of management and financial information, and efficiency and effectiveness of operations.

Criteria Twelve: Effective Communications

The Board ensures that the organization has a communications policy that clearly outlines responsibilities for speaking on behalf of the organization. The Board 'speaks with one voice' to the CEO, management and staff and stakeholders.

Observations and Comments:

The Governance by-law document states *"The Board shall ensure that it has in place an approved communication policy for the corporation. The policy shall at a minimum, set out:*

- *Guidelines to ensure the provision of information in a timely manner*
- *Accountabilities and approved processes for the release of information within and beyond the corporation*
- *Guidelines and accountabilities for crisis communications."*

It is not clear from this statement whether the communication policy would address both internal and external communication and the current package of Board policies does not contain a communications policy.

In April 2003, the Board received the results of an external audit of the communications function of NSLC conducted by a subject matter expert in this area. Four significant recommendations were provided for the corporation to act upon.

The annual report is a key document that summarizes the performance of the Corporation in achieving results on the business plan and meeting the expectations of the stakeholders. The information on corporate governance presented in the 2003 report was very effective and demonstrates the appreciation by the Board as to its accountability.

The Board should bear direct responsibility for overseeing and directing the content of this report. The Board should review the current form of the annual report and ensure that it is an informative and effective document. The Board should examine whether the information that is currently presented is needed on an ongoing basis. For example, the Board should consider whether to continue reporting sales by store by product. The Board should ensure consistency and appropriateness of presentation, as well as value of the information. For example, the last annual

report communicated certain financial information to two decimal places and rounded other financial information to the nearest thousand dollars.

The Board should also consider whether certain information should be provided through the corporate website rather than inside the printed annual report.

Summary and Recommendations:

Communications is a critical responsibility of the Board. The Board needs to clearly articulate its expectations to both internal audiences and externally, to customers, suppliers, and shareholder.

We recommend additional effort on the following:

35. The President develop an action plan showing how each of the key recommendations of this report is being dealt with and the timeline in which it is being developed.
36. Assign to the Corporate Governance committee the task of developing the communications policy and set a deadline for this being presented to the Board.
37. The Board start the process for the development of the 2004 annual report now. It should gather feedback from readers/users of the annual report to identify whether and how they find value in the report, to identify what needs to be provided on an ongoing basis in a written format versus providing some information through the corporate website, and identify what information should be reported to demonstrate the full range of accountabilities for the corporation.

OTHER OBSERVATIONS

During the conduct of this work assignment, we have observations on other areas where the Board may wish to consider further review:

- Given the change to the corporate structure and business focus of the Corporation, the Board should consider whether operational reviews should be conducted in specific areas of operations. The operational reviews should be mandated to identify where efficiencies could be gained or where operational effectiveness could be improved.

- Currently, there are a number of management standing committees, a number of administrative assistants, two vice presidents in human resources, and an absence of job descriptions for the vice president positions. It may be prudent to review the management structure for its efficiency and conduciveness to operations.

- In the fiscal 2004 business plan, net income is projected at 39% of sales for fiscal 2004, and 38% of sales for each year thereafter to 2008, despite a forecasted 9.7% increase in sales dollar and a 5% increase in volume. The Board may wish to examine whether a constant level of net income is appropriate in light of forecasted increases in revenues and volumes.

CONCLUSION

Since the introduction of the new corporate structure, the NSLC has undergone significant change including introduction of a new governance model, appointment of a Board, hiring of a new CEO and several senior managers and restructuring of the organization. During a time of significant change, the need for the Board to be effective in its oversight responsibilities remains and perhaps grows. With the creation of the NSLC as a corporation, nine individuals were brought together as a Board of Directors and given the responsibility to manage the organization. Since its appointment, the new Board has developed and begun to introduce a governance model including processes, policies and structures to support them in fulfilling their corporate governance responsibilities.

The Board should be commended for the work and dedication that they have displayed over the past two years in assuming and executing their duties. The Board has done its best in developing framework and processes.

Grant Thornton LLP has used twelve characteristics of effective governance to evaluate the current practices of the NSLC Board of Directors. Over 30 individual recommendations have been developed where additional effort is needed to improve the NSLC Board governance practices. We suggest that the Board establish an action plan to deal with each of the recommendations and that this action plan identify who or which committee has responsibility for addressing the item, and the deadline by which the item should be complete.

We thank the Board and management of the NSLC for the cooperation we received during the conduct of the governance review. We are confident that the Board will ensure due consideration and action on the recommendations for the long-term sustainability of the organization.

SUMMARY OF RECOMMENDATION

We recommend additional effort on the following:

1. Facilitated dialogue between Board and President to clarify respective roles and approach to their working relationship. Based on this dialogue, processes and actions for improving the working relationship of the Board and the President should be developed and implemented and periodic reassessment conducted.
2. Share this dialogue and inform the senior management team of the agreed roles of the Board and the President and the approach to their working relationship – this should be done by both the Chair of the Board and the President.
3. The Board spend time outlining the Board's role as policy maker and monitor of such.
4. The Board develop and initiate a strategic planning process in collaboration with the President.
5. The Corporate Governance committee develop a comprehensive description for the President's role for the Board's review and approval.
6. Update the Governance by-law to set out the Board's role in communications and relationship management.
7. Revise the Governance by-law to eliminate the statements with respect to making specific policy and to indicate that the Board will establish policy, as needed, to govern the corporation and will monitor performance against same.
8. Establish the Corporate Governance committee as a standing committee of the Board and assign their tasks to include establishment of an outline of desired skills and experience on the Board, and thereafter annual update of such considering regulatory pronouncements, changes in the corporation's business and structure, and expectations of the shareholder.
9. The Corporate Governance committee establish a process for requesting nominees and also identifying potential new nominees. This process should include an evaluation of the person's skill sets against the desired composition of the Board. The process should also include an interview stage to establish the person's level of interest, commitment, and operating style to ensure that there will be a positive fit with the culture of the organization.

10. Develop an outline of an orientation process for new Board members. We recommend that this be the responsibility of the Corporate Governance committee. The chair of this committee should ensure that new Board members complete the process. Feedback on effectiveness of the program should be sought and changes made in relation to the feedback.

11. Identify appropriate ongoing education for the Board members – this may be provided through an education item at the start of each Board meeting, an annual education session for the Board on industry issues or fiduciary obligations; and/or committee specific education, such as education on new accounting and auditing regime standards for the Audit Committee. The responsibility for ongoing education of the Board should be assigned to the Corporate Governance committee.

12. The Corporate Governance committee take on the task of overseeing the development of a Board members manual. This manual should have four primary sections: Board of Directors; Corporate Information; Operations; Industry Information. The section for Board of Directors should include, but not be limited to, items such as the Corporate Governance by-law, mission, vision, values, strategic plan, Board/committee lists, committee terms of reference, by-laws and governance policies. The Corporate Information section should include the Liquor Control Act and Annual Report. The Operations section should include the staff organization chart, outline of business and functional units, annual business plan, employee profile, key suppliers, customer profile, retail locations, and types of distribution points. The Industry information section should include information on the liquor retail industry; consumer trend information, and associations.

13. Assign the task of developing a Board member evaluation form and process to the Corporate Governance committee for review by the Board.

14. Assign the task of developing a termination process and the potential reasons for termination of Board members to the Corporate Governance committee for review by the Board.

15. Update the role of the Board Chair to include responsibility to monitor the effectiveness of committees and committee chairs.

16. Update the responsibilities for Board members to include being a member of a committee.

17. Update the Governance by-law to establish the Corporate Governance committee as a standing committee with the following responsibilities: develop and execute strategic planning process; develop and oversee Board orientation; arrange for ongoing education for

the Board; develop and conduct self-assessment process for Board, Board members, and committees; develop outline for Board composition regarding skills and experience; develop policy-setting framework; and develop termination process for Board members.

18. Require that the President's report be reformatted to show progress on corporate actions for the year and progress on the business plan.

19. Require that the financial information provided to the Board be streamlined to that which is necessary for the governance level and key indicators be developed to enable the Board to monitor financial performance. Eliminate the preliminary financial statements and improve processes to provide the final financial report within 20 days of month end.

20. Require that the President commit to a full and open disclosure style and ensure that the Board is provided with alternatives and analysis of impact/implications of proposed recommendations.

21. The Audit Committee work with the President to identify whether financial results are adequate given other comparator organizations, establish the achievable return and monitor financial results to desired benchmarks.

22. The Corporate Governance committee take on the task to develop an annual assessment process for the Board, and for the committees. The committee should also develop the timeline for the evaluation process, as well as how the process will be undertaken with the confidentiality required. The Board may find it appropriate to use an outside consultant to conduct the process and provide the feedback in order to achieve necessary confidentiality and independence from the Board.

23. On receipt of the feedback, the Chair of the Board review individual Board member's performance results with them. Also, on receipt of the Board and Committee feedback, the Board and Committees should identify changes to processes and practices to address any areas for improvement.

24. The Board consider the additional information that should be included in the annual report to demonstrate their fulfillment of accountability standards.

25. Expand the President's assessment process to include input from a broader group of affected individuals and stakeholders.

26. Ensure that the assessment of the President includes an assessment of progress on the Corporation's strategic plan and current year business plan.

27. The Corporate Governance committee develop a policy-setting framework, and develop a template to ensure that policies are documented in a consistent style. The template should ensure that there is a standard for dating the policy and identifying who approved the policy, as well as a standard for the timing of policy reviews thereafter. The policy-setting framework should also distinguish between by-laws and policy.

28. The Board and management review current policies to identify omissions, conflicts or non-compliance with legislative authority, as well as those policies that are in need of revision due to changes in operations or to improve the readability of the material.

29. The Board sponsor a special meeting for the purpose of developing mission, vision and values. Senior management should also participate in this meeting. We also recommend that an independent facilitator be used to provide for an effective dialogue process. The Board should develop a communications plan to ensure the proper sharing of the statements with employees, customers, suppliers and shareholders.

30. The Board sponsor an operational review of the internal audit group with the view to examining the structure, positioning, and reporting relationships of the group in context of the organization's risk profile and the desired culture of the Corporation.

31. Amend the Authorities policy to recognize that dismissal of the Internal Audit manager follows a unique process.

32. The Board sponsor an enterprise risk management review including facilitated risk workshops with the Board and with senior management to ensure understanding of the risk profile, elements of inherent risk and risk responses in place. This review should lead to the identification of inherent risks across the corporation, as well as the degree of risk. The risks should consider both those presented in the external environment within which the corporation operates, as well as the risks that arise for internal reasons.

33. The internal audit group adopt an enterprise risk view and summarize the key risks annually and consider enterprise risk in the allocation of resources each year. Additionally, internal audit should ensure that their reports to the Audit Committee focus on risks that the Corporation will be exposed to and the degree of risk in the event that control breakdowns are allowed to continue. This change to internal audit processes should be preceded by the operational review of the current internal audit function to examine its positioning within the organization, its mandate, its processes and its capabilities.

34. The Board consider the merits of establishing a process for CEO and CFO annual certifications on the adequacy of the design and operations of internal controls across the organization for the purposes of the control objectives of safeguarding of assets, compliance with legislation, reliability of management and financial information, and efficiency and effectiveness of operations.

35. The President develop an action plan showing how each of the key recommendations of this report is being dealt with and the timeline in which it is being developed.

36. Assign to the Corporate Governance committee the task of developing the communications policy and set a deadline for this being presented to the Board.

37. The Board start the process for the development of the 2004 annual report now. It should gather feedback from readers/users of the annual report to identify whether and how they find value in the report, to identify what needs to be provided on an ongoing basis in a written format versus providing some information through the corporate website, and identify what information should be reported to demonstrate the full range of accountabilities for the corporation.

Nova Scotia Liquor Corporation
Governance Action Plan
December 2003

Criteria One: Clear Roles and Responsibilities for the Board

	Recommendation	Responsibility / Champion	Reporting Date	Comments
1	Facilitated dialogue between Board and President to clarify respective roles and approach to their working relationship. Based on this dialogue, processes and actions for improving the working relationship of the Board and the President should be developed and implemented and periodic reassessment conducted.	Board / Acting President	Done	Done a minimum of semi annually.
2	Share this dialogue and inform the senior management team of the agreed roles of the Board and the President and the approach to their working relationship – this should be done by both the Chair of the Board and the President.	Board / Acting President	Ongoing	Ongoing December 2003
3	The Board spend time outlining the Board's role as policy maker and monitor of such.		Ongoing	Should develop through practice. Have assistance of a facilitator.
4	The Board develop and initiate a strategic planning process in collaboration with the President	Acting President / Executive /Corporate Secretary	Feb. 2004	President / Executive to develop draft process.
5	The Corporate Governance committee develop a comprehensive description for the President's role for the Board's review and approval.	Corporate Governance Committee and Corporate Secretary	January 31, 2004	Ongoing
6	Update the Governance by-law to set out the Board's role in communications and relationship management.	Corporate Secretary	January 31, 2004	Change Board responsibilities regarding communications.
7	Revise the Governance by-law to eliminate the statements with respect to making specific policy and to indicate that the Board will establish policy, as needed, to govern the corporation and will monitor performance against same.	Board	Ongoing	Process item ongoing

Criteria Two: Effective Board Membership

	Recommendation	Responsibility / Champion	Reporting Date	Comments
8	Establish the Corporate Governance committee as a standing committee of the Board and assign their tasks to include establishment of an outline of desired skills and experience on the Board, and thereafter annual update of such considering regulatory pronouncements, changes in the corporation's business and structure, and expectations of the shareholder.	Split 8 into part one and part two	Completed	Has been established. Combine point 8 & 9. Develop process. Once developed guidelines will be forwarded to Minister as advice.
9	The Corporate Governance committee establish a process for requesting nominees and also identifying potential new nominees. This process should include an evaluation of the person's skill sets against the desired composition of the Board. The process should also include an interview stage to establish the person's level of interest, commitment, and operating style to ensure that there will be a positive fit with the culture of the organization.	Corporate Secretary / HR & Governance Committee	March 31, 2004	Develop Process & forward as advice to Minister.

Criteria Three: Board Orientation and Training

	Recommendation	Responsibility / Champion	Reporting Date	Comments
10	Develop an outline of an orientation process for new Board members. We recommend that this be the responsibility of the Corporate Governance committee. The chair of this committee should ensure that new Board members complete the process. Feedback on effectiveness of the program should be sought and changes made in relation to the feedback.	Board	March 31, 2004	Develop process
11	Identify appropriate ongoing education for the Board members – this may be provided through an education item at the start of each Board meeting, an annual education session for the Board on industry issues or fiduciary obligations; and/or committee specific education, such as education on new accounting and auditing regime standards for the Audit Committee. The responsibility for ongoing education of the Board should be assigned to the Corporate Governance committee.	Acting President / Corporate Secretary	March , 2004	Establish Policy
12	The Corporate Governance committee take on the task of overseeing the development of a Board members manual. This manual should have four primary sections: Board of Directors; Corporate Information; Operations; Industry Information. The section for Board of Directors should include, but not be limited to, items such as the Corporate Governance by-law, mission, vision, values, strategic plan, Board/committee lists, committee terms of reference, by-laws and governance policies. The Corporate Information section should include the Liquor Control Act and Annual Report. The Operations section should include the staff organization chart, outline of business and functional units, annual business plan, employee profile, key suppliers, customer profile, retail locations, and types of distribution points. The Industry information section should include information on the liquor retail industry; consumer trend information, and associations.	Board	December 30, 2003	Restructure current manual

Criteria Four: Expectations and Involvement of Board Members

	Recommendation	Responsibility / Champion	Reporting Date	Comments
13	Assign the task of developing a Board member evaluation form and process to the Corporate Governance committee for review by the Board.	HR & Governance Committee	March 2004	
14	Assign the task of developing a termination process and the potential reasons for termination of Board members to the Corporate Governance committee for review by the Board.	Corporate Secretary / Governance Committee	June 2004	Combine Point 13 & 14 and develop policy and process

Criteria Five: Effective Board Structure

	Recommendation	Responsibility / Champion	Reporting Date	Comments
15	Update the role of the Board Chair to include responsibility to monitor the effectiveness of committees and committee chairs.	Corporate Secretary	January 31, 2004	
16	Update the responsibilities for Board members to include being a member of a committee.	Corporate Secretary	January 31, 2004	
17	Update the Governance by-law to establish the Corporate Governance committee as a standing committee with the following responsibilities: develop and execute strategic planning process; develop and oversee Board orientation; arrange for ongoing education for the Board; develop and conduct self-assessment process for Board, Board members, committees; develop outline for Board composition regarding skills and experience; develop policy-setting framework; and develop termination process for Board members.	Corporate Secretary	January 31, 2004	To review wording of NSLC Corporate Governance document

Criteria Six: Effective Decision Making

	Recommendation	Responsibility / Champion	Reporting Date	Comments
18	Require that the President's report be reformatted to show progress on corporate actions for the year and progress on the business plan.	Acting President	December 4, 2003	In Place
19	Require that the financial information provided to the Board be streamlined to that which is necessary for the governance level and key indicators be developed to enable the Board to monitor financial performance. Eliminate the preliminary financial statements and improve processes to provide the final financial report within 20 days of month end.	Combine point 19 & 21 and refer to the Audit committee	Done	Audit committee to develop financial indicators with other indicators developed by Governance committee.
20	Require that the President commit to a full and open disclosure style and ensure that the Board is provided with alternatives and analysis of impact/implications of proposed recommendations	Acting President / Board	Ongoing	In operations and include in job description.
21	The Audit Committee work with the President to identify whether financial results are adequate given other comparator organizations, establish the achievable return and monitor financial results to desired benchmarks.	Audit committee	January 31, 2004	Develop key indicators

Criteria Seven: Board Accountability

	Recommendation	Responsibility / Champion	Reporting Date	Comments
22	The Corporate Governance committee take on the task to develop an annual assessment process for the Board, and for the committees. The committee should also develop the timeline for the evaluation process, as well as how the process will be undertaken with the confidentiality required. The Board may find it appropriate to use an outside consultant to conduct the process and provide the feedback in order to achieve necessary confidentiality and independence from the Board.	HR & Governance Committee	April 2004	Develop process
23	On receipt of the feedback, the Chair of the Board review individual Board member's performance results with them. Also, on receipt of the Board and Committee feedback, the Board and Committees should identify changes to processes and practices to address any areas for improvement.	Board	Ongoing	Hold, reference 22
24	The Board consider the additional information that should be included in the annual report to demonstrate their fulfillment of accountability standards.	Director of Communications	April 2004	

Criteria Eight: Executive Performance Management

	Recommendation	Responsibility / Champion	Reporting Date	Comments
25	Expand the President's assessment process to include input from a broader group of affected individuals and stakeholders.	Board	Done	Ongoing
26	Ensure that the assessment of the President includes an assessment of progress on the Corporation's strategic plan and current year business plan.	Board	Done	Ongoing

Criteria Nine: Effective Policy-Setting

	Recommendation	Responsibility / Champion	Reporting Date	Comments
27	The Corporate Governance committee develop a policy-setting framework, and develop a template to ensure that policies are documented in a consistent style. The template should ensure that there is a standard for dating the policy and identifying who approved the policy, as well as a standard for the timing of policy reviews thereafter. The policy-setting framework should also distinguish between by-laws and policy.	Corporate Secretary	January 31, 2004	Corporate Secretary to provide copy of provincial policy template.
28	The Board and management review current policies to identify omissions, conflicts or non-compliance with legislative authority, as well as those policies that are in need of revision due to changes in operations or to improve the readability of the material.	Acting President / Corporate Secretary	Ongoing	President / Corporate Secretary to review and comment on the policies of the NSLC.

Criteria Ten: Setting Organizational Culture

	Recommendation	Responsibility / Champion	Reporting Date	Comments
29	The Board sponsor a special meeting for the purpose of developing mission, vision and values. Senior management should also participate in this meeting. We also recommend that an independent facilitator be used to provide for an effective dialogue process. The Board should develop a communications plan to ensure the proper sharing of the statements with employees, customers, suppliers and shareholders	HR & Governance Committee	June 2004	Develop mission, vision, and values. Once done, develop strategic plan. Process begun December 2003
30	The Board sponsor an operational review of the internal audit group with the view to examining the structure, positioning, and reporting relationships of the group in context of the organization's risk profile and the desired culture of the Corporation.	Acting President / Corporate Secretary	March 2004	Review internal audit group process & request input from Audit committee.
31	Amend the Authorities policy to recognize that dismissal of the Internal Audit manager follows a unique process	Combine with point 30	March 2004	

Criteria Eleven: Risk Management

	Recommendation	Responsibility / Champion	Reporting Date	Comments
32	The Board sponsor an enterprise risk management review including facilitated risk workshops with the Board and with senior management to ensure understanding of the risk profile, elements of inherent risk and risk responses in place. This review should lead to the identification of inherent risks across the corporation, as well as the degree of risk. The risks should consider both those presented in the external environment within which the corporation operates, as well as the risks that arise for internal reasons.			Completed October 2003
33	The internal audit group adopt an enterprise risk view and summarize the key risks annually and consider enterprise risk in the allocation of resources each year. Additionally, internal audit should ensure that their reports to the Audit Committee focus on risks that the Corporation will be exposed to and the degree of risk in the event that control breakdowns are allowed to continue. This change to internal audit processes should be preceded by the operational review of the current internal audit function to examine its positioning within the organization, its mandate, its processes and its capabilities.	Refer to the Audit committee	March 2004	
34	The Board consider the merits of establishing a process for CEO and CFO annual certifications on the adequacy of the design and operations of internal controls across the organization for the purposes of the control objectives of safeguarding of assets, compliance with legislation, reliability of management and financial information, and efficiency and effectiveness of operations.	Board	March 2004	

Criteria Twelve: Effective Communications

	Recommendation	Responsibility / Champion	Reporting Date	Comments
35	The President develop an action plan showing how each of the key recommendations of this report is being dealt with and the timeline in which it is being developed.	Acting President	Ongoing	
36	Assign to the Corporate Governance committee the task of developing the communications policy and set a deadline for this being presented to the Board.	Governance committee / Director of Communications	March 2004	
37	The Board start the process for the development of the 2004 annual report now. It should gather feedback from readers/users of the annual report to identify whether and how they find value in the report, to identify what needs to be provided on an ongoing basis in a written format versus providing some information through the corporate website, and identify what information should be reported to demonstrate the full range of accountabilities for the corporation.	Director, Corporate Communications	Ongoing	Being done.

Backgrounder

NSLC Grant Thornton Review Background

December 11, 2003

Introduction

Shortly after coming into office in 1999, the Government initiated a review of agencies, boards and commissions. Thereafter, it commissioned the firm PriceWaterhouseCoopers LLP to explore options for the retail delivery of beverage alcohol sales in Nova Scotia. After due consideration the government decided to transform the Nova Scotia Liquor Commission from its historical structure of more than 70 years as a government "commission" to one of a "crown corporation". The NSLC formerly became a Crown Corporation in July 2001 with the first private sector Board of Directors beginning its work in February 2002.

The implication of this change was far reaching. A crown corporation brings significant changes to how a government organization is governed, its accountability and management processes. Essentially a crown corporation, no longer simply an agency of government, becomes more like a publicly traded corporation, except that it has but one legal shareholder - the Minister Responsible for the Administration of the Liquor Control Act - who acts on behalf of the people of Nova Scotia, the real owners of the NSLC.

As a 'Commission', the NSLC functioned, essentially, as a minor government department, led by a general manager who reported directly to the Minister.

Under the Liquor Control Act, the new Nova Scotia Liquor Corporation (NSLC) is governed and directed by a Board of Directors. Seven voting directors are appointed by the Government from the private sector. The Board also includes two non-voting directors: the President of the NSLC and a Deputy-Minister. These Directors are representative of the regional diversity of the province and bring a wide-variety of business experience to the NSLC.

The distinction between a crown corporation and a commission is as much in intention as in structure. A crown corporation acts operationally at arm's length from the Government as opposed to a commission which is a direct part of government. As well, because it is governed by a private sector Board, it is meant to operate on a private sector business model with resulting focus on maximizing the financial return to the shareholder and responsiveness to changing market demands.

There are, however, two fundamental differences between how a publicly traded

company and a crown corporation operate. The first is that while the voting directors of a crown corporation share the same fiduciary responsibility of any other group of corporate directors, crown corporation directors also must perform a trusteeship function on behalf of the true shareholders - the people of Nova Scotia. There are two elements to this trusteeship function: one, the safeguarding and protection of public funds held by or passing through the corporation. Secondly, they must provide an ombudsmen-like service to the public relative to the activities of the corporation – Directors must be available to receive and respond to complaints and inquiries made by members of the public.

The second difference is the long established tradition recognizing the right of the Government, as the shareholder, to issue directives to the Corporation through the Board. For example, this includes such things as setting a financial target for the Corporation, or requiring that certain Government policies or principles be respected in the operation of the Corporation. It does not normally include frequent directives on day-to-day operations.

As a corporation the NSLC must now operate in a context of transparency, openness and accountability in a manner consistent with good business practices, commercial confidentiality and respect the right of privacy of individual Board members and staff.

During the first few months of 2002, it became apparent to the Board that the leadership of the NSLC as a commission had largely operated in isolation from the government for many years. It had thus developed its own corporate culture. As well, it was apparent that there was generally very little staff turnover. The leadership had become stagnant with little focus on customer service, efficiency and innovation. Conversations with suppliers and licensees were not always transparent and consistent. The leadership of the NSLC had instituted few standardized business practices, insufficient inventory control and a total lack of use of contemporary business technology.

The former Commission, as with the present Corporation, was bound by law, and by Government policies and procedures for such things as procurement and hiring. In practice, the new Board soon learned that the existing answer at the NSLC as to why things were done the way they were was too often "because we've always done it that way". Standard Government policies and practices were not always followed. In fact, few set procedures and business practices seemed to exist when the NSLC was a Commission.

During 2002, the Board was frequently frustrated in efforts to get information from the senior management that it felt it required in order to properly discharge its duties and responsibilities. Often, the Board raised questions that did not seem to have satisfactory answers. Management did not conduct systematic research on such things as customer or employee satisfaction. The NSLC management seemed to rely on second-hand research and marketing strategies taken directly from suppliers.

As a result, instead of having its own strategic marketing plan, the NSLC relied on the strategies of the suppliers, whose responsibility was to sell their products.

and not simply to meet the needs of Nova Scotia consumers. The old NSLC leadership clearly felt their role was to operate simply as a distributor of alcohol beverage products and not as a modern retail organization. The Board was left with little option but to institute senior management changes in order to obtain professionals with new skill sets to meet the changing nature of the Corporation's mandate.

It was and is the view of the Board that its responsibility and ongoing challenge is to satisfy itself that procurement procedure and decisions for both goods and services are made fairly and in accordance with sound business practices and/or government procurement policies.

The Genesis of the Review

During late January 2003, a member of the NSLC Board received a complaint from a former supplier to the Corporation. The NSLC immediately conducted an internal audit of the issue raised by the complainant. This material was turned over to the HRM police. Their investigation is ongoing.

As a result of this complaint the Board of Directors initiated a review of all tendering practices of the NSLC. In view of the urgency of the matter, and in the interest of getting the review underway as soon as possible, and on the advice of the Province's Executive Director of Purchasing, the decision was taken by the Board through the Chair to sole source the review. The Board, after careful evaluation, engaged the accounting firm Grant Thornton to lead the comprehensive review.

The report released today is the result of Grant Thornton's work. It should be noted that during the course of their research, Grant Thornton brought urgent matters and recommendations to the attention of the Board, which acted immediately on these matters. They are referenced in our "Action Plan" document which is also being released today.

An interim oral report of findings was received by the Board in September 2003. A draft written report was received in early November. Immediately on receiving these recommendations, the Board took steps to mitigate risks identified in the findings of Grant Thornton.

The final report was delivered to the NSLC Board on December 5, 2003.

Today, as we indicated we would when NSLC officials appeared before the Public Accounts Committee on October 22, 2003, the NSLC is releasing the full report together with this background paper explaining why and how the report was commissioned.

In addition to being released to the public through the NSLC's web site, copies are being sent to members of the Public Accounts Committee of the Legislature, the Auditor-General for Nova Scotia, and of course to the Minister Responsible for Administering the Liquor Control Act.

It should be noted that the criminal investigation, launched in June 2003, by the HRM police, is ongoing. Accordingly, NSLC officials cannot provide further information on the investigation beyond the facts outlined in this document, nor respond to any inquires regarding this matter. Such inquiries should be directed to the HRM police.

Conclusion

The Grant Thornton reports presented to the NSLC represent an important turning point in the transformation of the NSLC from a government commission to a business focused crown corporation. The NSLC is well on its way to implementing all of the recommendations contained in these reports. The result will be a corporation that is better governed and managed, more accountable and transparent, and will offer a modern approach to retailing and customer service.

Ultimately, the business and governance improvements resulting from the reviews, the senior leadership investments and the new direction of the NSLC will produce a more efficient and profitable organization; one which customers, suppliers, employees and the shareholder will recognize and be proud.

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